SOQUEM

annual report 1975 | 1976

file

SOQUEM

annual report 1975 | 1976

Table of contents

Dépôt légal, troisième trimestre 1976
Bibliothèque Nationale du Québec

Board of directors

Côme Carbonneau

Godefroy de Billy

Fernand Dubuc

Lucien Fontaine

Georges Gauvreau

Claude Genest

André Marier

Officers

Côme Carbonneau
president and chief executive officer

Claude Genest
senior vice-president

Fernand Dubuc
vice-president — exploration

Renaud Hinse
vice-president — mines

Guy Perrault
vice-president — research

Henri Lefrançois
secretary general

Marcel Lalonde
treasurer

Head office

2406 Quatre-Bourgeois
Sainte-Foy, Québec
G1V 1W5

Business office

1000 Sherbrooke West
Suite 1710, Montréal
H3A 2P2

Regional office

La Société Minière Louvem Inc.
P.O. Box 1420, Val d'Or
J9P 4P8

On peut se procurer l'édition française de ce rapport au siège social de la Société, à Sainte-Foy.

To the Honorable Jean Cournoyer
Minister of Natural Resources
Parliament Buildings
Québec

Sir,

In accordance with article 18 of the Charter of the Société Québécoise d'Exploration Minière, the Board of Directors hereunder submits its Annual Report for the fiscal year ending March 31, 1976.

The outstanding events of the year were the beginning of operations of the Niobec mine at St. Honoré, near Chicoutimi; completed adjustment of the extraction process of the new zinc ore discovered at the Louvem mine at Val d'Or; and the final evaluation, based on surface work, of the salt deposits and the potash showings discovered on the Magdalen Islands.

Niobec Inc.

Mining operations at the Niobec mine got underway last February, and by the end of the fiscal year the concentration plant was in the tune-up stage. The extraction of niobium at St. Honoré is the third mining operation to emerge from discoveries made by SOQUEM or its subsidiary, Louvem. Development was carried out under the direction of the Teck Mining Group, adhering very closely to the timetable and the cost limits which had been set. The concentration plant has a capacity of 1,500 tons of ore a day, which comes out to an annual production of 5,500,000 pounds of niobium pentoxide.

SOQUEM holds 50% of the shares of Niobec Inc.; the other half is equally divided between the Copperfields Mining Corporation and the Teck Corporation.

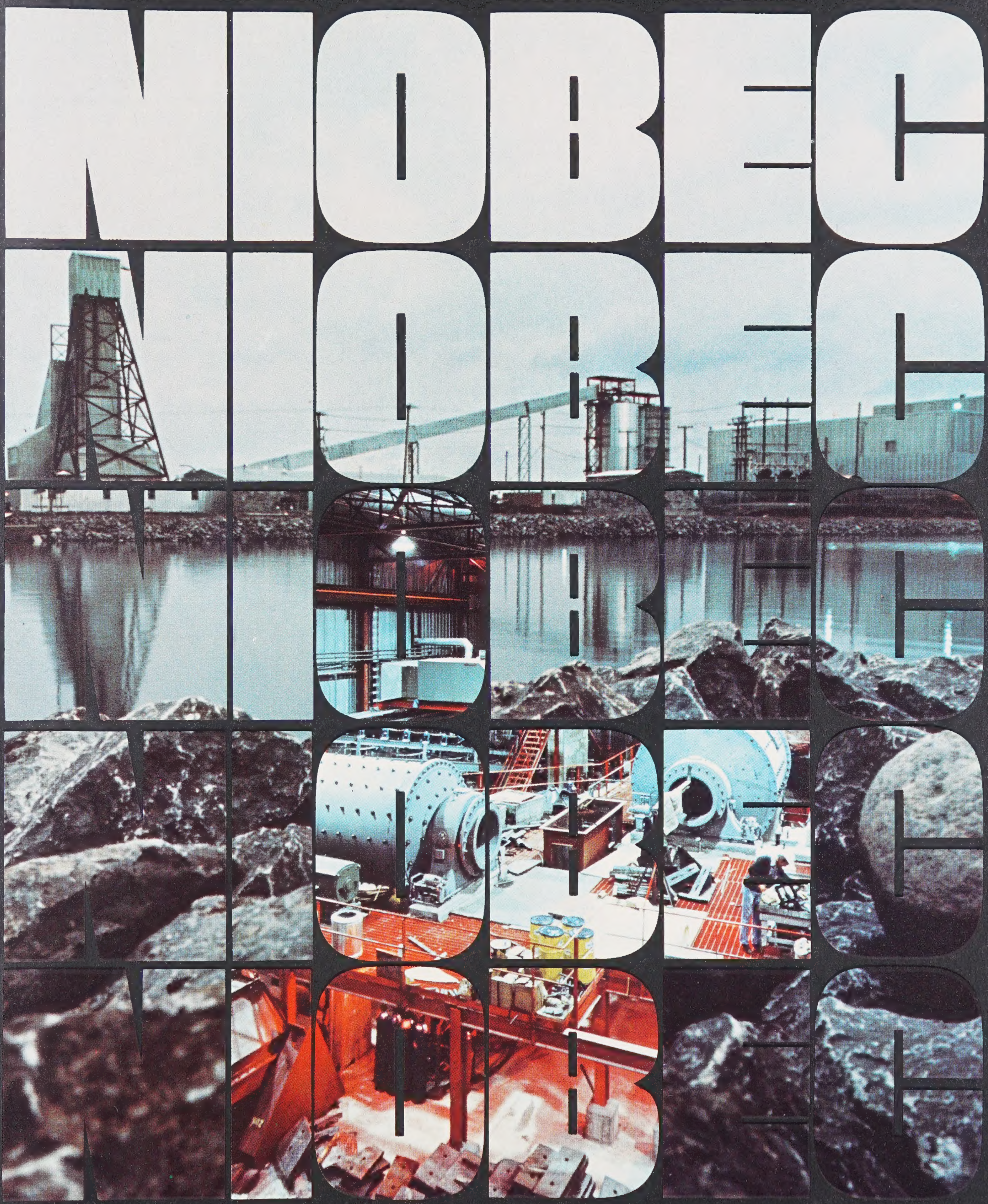
La Société Minière Louvem Inc.

The first full year of zinc production by this company was completed with a net profit of $1,775,739. Some 39,700,000 pounds of zinc, out of a projected volume of 44,700,000, were recovered and sold at an average price of $0.34 per pound. The shortfall of five million pounds from the projected total was due to several factors, the main one being the decision made during the year to handle ore with a lower zinc content, in order to store for later processing the ore with appreciable quantities of gold, which is not recovered in the present concentrating process. Supplementary tests made on the ore during the year in fact revealed that amounts of gold and silver varying between $6 and $7 a ton could be recovered with the installation of a cyanidation unit.

The exploration and compilation work carried out in the course of the fiscal year has led to a re-evaluation of the reserves, which are now placed at 2,3 million tons of ore before dilution, containing an average of 0.21% Cu, 6.29% Zn, 0.97 oz/t Ag, and 0.036 oz/t Au. Total reserves are thus now twice the amount of those known at the beginning of the fiscal year, with equivalent value in metal content. In this respect, the Company is now in a better position than it has been at any time since it began operations in August 1970, when it only had mineral reserves for 22 months. During this period Louvem has accumulated undistributed profits of $4,090,226, and paid dividends of $1,650,000 to SOQUEM, of which $500,000 was turned over during the past fiscal year; its working capital amounts to $3,522,179. Royalties accrued during the year to the companies of the Brossard group, based on the value of the ore handled, were about $800,000.

Magdalen Islands (Seleine Inc.)

Evaluation of the salt deposits and potash showings, started on the Magdalen Islands at the beginning of 1975, was completed during the fiscal year. The entire exploration project, initiated in July 1972, involved a total expenditure of


NIOBEC
NIOBEC
NIOBEC
NIOBEC
NIOBEC

$5,2 million. Seven salt deposits of varying sizes have been located on four of the seven main islands of the archipelago. The potash drill intersections available do not allow us to define commercial quantities of this material; however, some sections are very interesting, and a more thorough evaluation, through additional drilling or underground work related to the development of the salt deposits, appears justified.

The distribution of the salt deposits is found in figure 1; table 1, on the other hand, summarizes the evaluation of the deposits with respect to various factors, such as tonnage with a NaCl content over 90%, depth of the deposit, and the distance between the deposit and the most suitable port site.

Work carried out during the fiscal year has established beyond doubt that the most favorable site for a salt mine with high production is the municipality of Grosse-Ile, and more specifically the deposit located at Rocher-aux-Dauphins. This is the conclusion which emerges from the occurrence of salt formations in the area, their volume, and the requirements imposed by the ecological and security factors, as well as the profitability of future operations.

It is generally accepted that the determining factor for success in exploiting salt deposits lies in the control of handling and transportation costs. In addition to several other favorable elements, the Rocher-aux-Dauphins and Grosse-Ile deposits have the advantage of being at a site which is close to one suitable for building a port.

Table 1

Summary of the evaluation of 7 salt deposits Magdalen Islands

Deposit	Tonnage* (millions of metric tons)	Depth from top of deposit to surface (meters)	Closest port site (kilometers)	Percentage of salt-bearing core samples assayed at 94.5% NaCl or higher
Île d'Entrée	312	251	0.8	17.3%
Havre-Aubert	301	102	11.0	41.3%
Bois-Brûlé	143	60	6.5	20.7%
Anse-à-la-Cabane	14	98	0	0.7%
Cap-aux-Meules	27	310	2.5	3.7%
Rocher-aux-Dauphins	460	29	2.5	34.2%
Grosse-Île	727	265	0	5.7%

* Includes only 35% of the total salt-bearing formations with 90% NaCl or higher.

Development and operation of a salt mine at Rocher-aux-Dauphins, including the entire cost of building a port at Leslie, would appear profitable in the event that the Department of Transport of Québec, the Autoroute Office, and half the municipalities of Québec would fill their salt requirements from this production facility, the only one in Québec. Nevertheless, if the mine could only gradually enter this market and the chemical industrial market, operation would still be feasible and competitive, even though it would not reach the desired

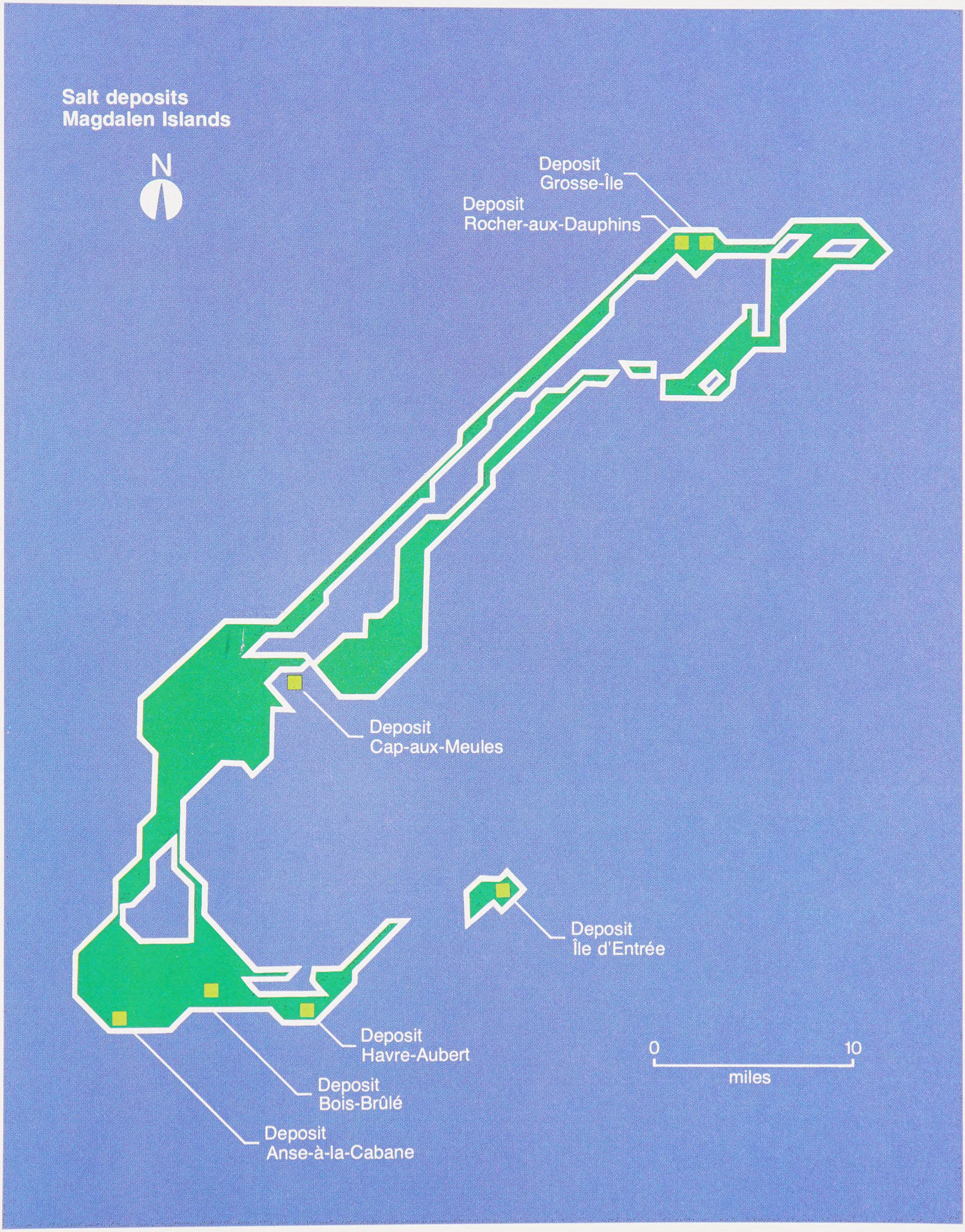

Salt deposits
Magdalen Islands
N
Deposit
Grosse-Île
Deposit
Rocher-aux-Dauphins
Deposit
Cap-aux-Meules
Deposit
Île d'Entrée
Deposit
Havre-Aubert
Deposit
Bois-Brûlé
Deposit
Anse-à-la-Cabane
0
10
miles

Figure 1

level of profitability. At the end of the fiscal year, proceedings with the proper authorities were continuing with regard to the construction and financing of docking facilities in this sector of the Magdalen Islands.

The project as such at Rocher-aux-Dauphins is now at a stage where mining reserves have to be determined through shaft sinking, tunnel sampling and underground drilling (stage 6 of the outline on pages 10 and 11). This undertaking will call for the investment of some $6,4 million and will begin as soon as the problems of financing the port have been settled.

Economic Prospects

The Québec taxpayer has the right to ask what return he will get for the $24,5 million the Québec government has subscribed to the capital stock of SOQUEM over the past ten years, $23,283 million of which had been committed by the end of the last fiscal year.

From 1966 to 1976 SOQUEM undertook about 225 *exploration* programs. Of these three have reached the *operation* stage: Louvem, Niobec and Somex; a fourth, the Seleine mine, has reached the stage of underground mining development prior to operation; 32 other programs are still in progress and involve mainly the search for mineral deposits; 189 have been abandoned because of negative results.

La Société Minière Louvem Inc. has produced income for SOQUEM since 1972; in a few years' time, Niobec Inc., which is now in operation, will as well. In addition, salt production from the Rocher-aux-Dauphins deposit by Seleine Inc. is forthcoming. Consequently, on the basis of the known mineral reserves of the first two, and of the probable reserves of the third, the Board of Directors thought it would be useful to present the following chart on the income which SOQUEM can reasonably expect to earn from these three commercial enterprises.

Using as a base the economic factors and the parameters generally accepted by the industry, SOQUEM has compiled the following table of the present value of the profits which should be earned by the development of the three discoveries. To this should be added the mineral duties payable to the provincial government, in accordance with the law on taxation of mining operations.

Table 2

Estimate of net income, or cash flow (SOQUEM share), and mineral duties to be paid to the provincial treasury by Louvem, Seleine and Niobec

	Cash flow		Mineral duties to be paid	
Period	Estimated value[1]	Present value[2]	Estimated value[1]	Present value[2]
	$000	$000	$000	$000
1976 to 1980	(25,722) to (14,167)	(22,601) to (13,880)	4,231 to 4,246	3,455 to 3,468
1981 to 1985	58,934 to 76,381	30,199 to 39,676	5,384 to 8,690	2,754 to 4,308
1986 to 1990	54,021 to 78,959	17,497 to 25,258	10,741 to 16,993	3,468 to 5,348
1991 to 1995	47,289 to 82,125	9,464 to 16,321	11,181 to 22,250	2,224 to 4,427
1996 to 1999	41,886 to 66,304	5,409 to 8,588	10,259 to 18,860	1,322 to 2,443
Total:	176,408 to 289,602	39,968 to 75,963	41,796 to 71,039	13,223 to 19,994
Total:	Estimated value — cash flow and mineral duties		220,268 to 350,641	
Total:	Present value — cash flow and mineral duties		53,191 to 95,957	

Note (1) In the case of Seleine, two sales profiles have been used to calculate the cash flow and mineral duties. The first may be described as pessimistic, and the second as optimistic.

Note (2) The present value is determined by discounting profits at an annual interest rate of 10%.

SOQUEM began receiving dividends on its research and development investments five years ago. At the end of the fiscal year, the cumulative value of the net assets of Louvem ($4,929,200), investments in Niobec ($2,743,337), and other assets amounted to $9,191,751. Moreover, Louvem paid the provincial treasury mineral duties in the amount of $832,000. Combining these figures with those of the preceding table, the estimated return on the investment of the Québec taxpayer, expressed in present values, is as follows:

Table 3

	Pessimistic outlook $000	Optimistic outlook $000
Present value — cash flow and Louvem, Niobec and Seleine mineral duties	53,191	95,957
Net value of various assets accumulated up to present, or shareholder equity	9,192	9,192
Mineral duties paid by Louvem	832	832
Total:	63,215	105,981
Subtract: Subscription to capital stock	24,645	24,645
Estimated surplus	38,570	81,336
Estimated return	156%	330%

When evaluated this way, the returns from the three enterprises allow an estimate of anticipated surplus, at discounted value, of from $38,570,000 to $81,336,000. This surplus does not include eventual income from the sale of mining properties, nor the return on discoveries which may be made by SOQUEM in the years to come. For the provincial treasury, the forecasts should also include the direct and indirect economic gains, such as the purchase of equipment and material, jobs created, and the fallout from general economic involvement, particularly in the case of salt, which is the basis of the entire industrial economy.

Other activities

The bill setting up SOQUEM (chapter 36 of the 1965 laws) defined the functions of the enterprise, in addition to participating in the development of mineral deposits, as follows:

"carry out mining exploration by all methods;
"participate in the development of discoveries, including those made by others, with power to purchase and to sell properties at various stages of development, and to associate itself with others for such purposes."

Each one of the exploration and development projects in which SOQUEM has participated during the year is shown in this report, beginning on page 12. As in previous years, the objectives sought are illustrated graphically, in three panels, in the diagrams on pages 10 and 11; the various methods used and the stages to be fulfilled to meet the objectives complete the chart.

This graphic presentation permits a rapid overall view of all the activities of the Company and avoids the sometimes monotonous repetition that results from the application of the same methods to different programs. However, some projects which are of particular interest, or which have just been started, are described in greater detail.

a
mineral deposit exploration

Successive stages and the methods used for the *discovery* of a mineral deposit

b
development of discoveries on joint-venture basis

Successive stages in the *development* of a mineral deposit

c
use (bringing orebody into production) on joint-venture basis

Successive steps involved in *bringing an orebody into production*

STAGE				
1	PRELIMINARY REGIONAL RECONNAISSANCE	airborne geophysical surveys:	magnetic electromagnetic radiometric *Outlining of possible mineralized zones*	photogeological aerial photography
2	GROUND PROSPECTING OF ZONES DEFINED IN STAGE 1	ground geophysical surveys: magnetic electromagnetic radiometric induced polarization gravimetric seismic	*Consideration and selection of significant anomalies*	
3	GROUND PROSPECTING OF ZONES DEFINED IN STAGE 2	detailed geology	removal of overburden	
4	DISCOVERIES			
5	SYSTEMATIC DEVELOPMENT WORK ON MINERAL DEPOSIT	complementary borings made at more or less closely spaced intervals	*Estimates of possible mineral reserves. If these prove interesting, Stage 6 is then undertaken*	
6	EVALUATION OF MINERAL RESERVES IN THE DEPOSIT	aim is eventual control of boring results and sampling, starting from shafts, drifts, cross-sections		
7	SETTING UP A FEASIBILITY STUDY	study of feasibility of the mine in terms of necessary investments and current market conditions for the metals or minerals		
8	FINAL DECISION	this is the stage where the final decision is made whether or not to bring the venture into production as a		
9	MINE DEVELOPMENT	transferring interests or selling the orebody outright	open-pit excavation or sinking of mine shaft	preparation of the mine stopes
10	MINING OPERATION	mining production by an organization formed for this purpose and in which the partners retain interests		

The term *mineral showings* in the chart is used to describe intersections obtained by drilling or trenching which indicate mineralization of adequate grade and width to be worked economically by known methods. A *mineral deposit* is a mineralized body which has been judged economically workable at first appraisal, but where quality and quantity must be definitely established during subsequent stages. Discoveries can, therefore, consist either of anomalies, mineral showings or mineral deposits.

An *orebody* is a mineralized body of sufficiently established quality and quantity to offer reasonable assurance that it can be mined at a profit under foreseeable economic conditions. The decision to bring such an orebody into production thus involves a normal industrial risk which reputable sources of capital financing are usually ready to assume.

A *mine* is a working industrial entity, usually comprising a quarry (open-pit or underground) and an ore treatment plant. The mine complex sometimes includes a further processing stage, where the desired chemical element is extracted from the concentrated ore by chemical or metallurgical methods. Depending upon the location of the mine, the complex may also include a port installation, rail lines, a townsite for workers, etc.

Bringing an orebody into production (phase "C" on the chart) is a quite distinct operation from the development of a field discovery (phase "B"). Similarly, the actual commercial working of the mine is a subsequent and entirely different operation from the mine development procedure outlined on the chart.

Depending upon the nature of the mineral discovery, the relative time required for each working stage can vary considerably. Sometimes, several stages might be carried out more or less simultaneously on a given mining property, or certain steps might even be omitted, depending on results of early studies. The general experience in Québec since 1857 shows an average time lapse of 12 years between initial discovery and actual mine operation (Stages 5 to 10).

Finally, each of the first seven stages is followed by an evaluation of the possibilities for achieving the end objective, before a decision is reached to go on to the next stage.

* Adapted from a plan by A. KAZMITCHEFF in "L'Exploration minérale moderne", page 17, édition de l'Union Minière, S.A., Casterman, 1972, with the author's permission.

Discovery development projects

Partners and/or participants	Name of project and Soquem interest (%)	STAGE	5	6	7	8	Total cost of project* and partners' contribution (%)	
Dr. Onil Hébert Les Pétroles Laduboro Ltée	MADELEINE (Magdalen Islands) salt	100%					$2,468,920	0%
Tiron Chemical Corporation	SAINT-URBAIN (Charlevoix) ilmenite and rutile	50%					18,124	50%
Silver Stack Mines Ltd.	SILVER STACK (Abitibi) gold and base metals	49%					53,198	51%
Hollinger, Awater, Lapointe, Roberts and successors	MINGAN (North Shore) iron, titanium, chrome and vanadium	90%					128,403	0%
Copperfields Mining Corporation	SAINT-HONORÉ (Chicoutimi) rare earths	50%					51,736	50%
Copperfields Mining Corporation	SAINT-ANDRÉ (Argenteuil) rare earths and columbium	50%					14,818	50%

Work progress during fiscal year

* 1975-1976 fiscal year

Unshared mineral deposit exploration projects

Name, location and type of project	STAGE	1	2	3	4	Cost of project*
BROMPTON (Eastern Townships) base metals	1975					$ 53,068
GRAVEM (Abitibi) base metals	1974					43,001
MÉGISCANE (Abitibi) base metals	1975					17,015
McKENZIE (James Bay) base metals	1975					16,273
SHAWINIGAN (Laurentians) base metals	1971					18,486
EMAL (Appalachians) base metals	1971					32,443
SPECTROMÉTRIE (Upper Saguenay) uranium	1975					153,849
CREVIER (Lake St. John) uranium	1975					204,516
MOUSKA (Abitibi) gold and base metals	1971					105,115
TOURNESOL (Abitibi) base metals	1974					12,871

Work progress during fiscal year

* 1975-1976 fiscal year

Shared mineral deposit exploration projects (managed by Soquem)

Partners and/or participants	Name of project and Soquem interest (%)		STAGE 1 2 3 4	Total cost of project* and partners' contribution (%)	
Imperial Oil Limited	JOFFRE (Gaspé Peninsula) base metals	40%	1974	$14,673	60%
Cominco Ltd.	BACHELOR (James Bay) base metals	50%	1974	54,573	50%
Union Minière Explorations and Mining Corporation Limited (UMEX)	OCTAVE (James Bay) base metals	40%	1967	16,283	60%
Union Minière Explorations and Mining Corporation Limited (UMEX)	SEPT-LIEUX (James Bay) base metals	50%	1973	91,560	50%
Penarroya Canada Limitée	ENJALRAN (James Bay) base metals	45%	1971	41,320	55%
Société de Développement de la Baie-James	VANIER (James Bay) base metals	49%	1975	61,907	51%
Noranda Mines Ltd.	WAITE (Abitibi) base metals	40%	1974	43,285	60%
Noranda Mines Ltd.	VAUZE (Abitibi) base metals	40%	1974	80,565	60%
Instituto Nacional de Industria	MANIC (North Shore) uranium and base metals	50%	1976	30,196	83.3%

(managed by partner)

Mattagami Lake Mines	GIZZARD (James Bay) base metals	45%	1972	82,234	55%

Work progress during fiscal year

* 1975-1976 fiscal year

Silver Stack Project

During 1974-1975, SOQUEM identified four mineral-bearing bodies with considerable tonnages of gold-bearing material on a property called Silver Stack in Northwestern Québec, Bousquet Township, near Cadillac. After the first half of the fiscal year under study, the Silver Stack Company declared its intention to maintain its 51% interest in the property by contributing its share to exploration costs. The price of gold began to weaken during this period. Afterwards, in view of the uncertainty caused by the decision of the International Monetary Fund to sell part of its gold reserves, it was deemed advisable to refrain from undertaking costly development work in the immediate future. The only outlays recommended were those for maintaining the joint property in good standing until it would be possible to get a better evaluation of the impact of the IMF sales on the price of gold. At the end of the fiscal year, Silver Stack Company held a 51% interest in the property, and SOQUEM 49%.

Manic Project

During the fiscal year, the Instituto Nacional de Industria (INI), of Spain, and SOQUEM concluded an agreement on the exploration, development and eventual operation of mineral deposits in an area of about 12,000 square miles, on the lower North Shore, between Port-Cartier and Baie-Comeau. Neither of the parties has any privileged rights in the territory; it is open to all economic development bodies, of all kinds.

The agreement specifies that the parties will be associated with each other for a period of five years, and that there will be a firm budgetary undertaking between them for the first three years, during which the contribution of INI to exploration costs will be $2 million approximately and that of SOQUEM $800,000. In the event a mining operation is set up at a mineral deposit, provision is made for dividing the interests equally between the two parties. Exploration will cover all minerals, with emphasis on uranium.

Victorin Project

This project, for the exploration and development of uranium deposits, covers an area of 1,200 square miles in Northern Québec. It will be under the joint administration of Hydro-Québec, Gulf Minerals Canada, and SOQUEM, with each party taking a 33⅓% share. The total budget for the first year has been set at $270,000; provision is made for a subsequent budget of $500,000, and if need be, this can be increased with the unanimous consent of the parties. If there are discoveries of minerals with no energy content, Hydro-Québec has agreed to yield its interest in these to SOQUEM, in return for a fair financial compensation.

Crevier Project

In September 1975 an alkaline complex with a number of uranium-bearing showings was found between the Crevier and Lagorce Townships in Lake St. John area, about 35 miles northwest of Girardville. This alkaline complex, similar to the carbonatite deposits of Oka and St. Honoré, contains a mineralized zone approximately two miles long and several hundred feet wide. This zone, in turn, shows radioactive vertical stringers up to three feet thick. The first surface sampling made of these stringers assayed an average of 1.5 lb/t U_3O_8. Six drill holes by groups of two, at 4,000-foot intervals, failed to disclose any uranium-bearing material with as high a content; the best intersections assayed about ¼ lb/t U_3O_8 over lengths varying from 15 to 70 feet. As the alkaline complex extends over a four-mile stretch northwesterly, the work done so far is considered very preliminary; the property warrants much more thorough examination.

Mingan Project

The Canada Centre for Mineral and Energy Technology at Ottawa (CANMET) has had encouraging results in recovering chromium, vanadium and aluminium from the ore-bearing complex of Mingan on the North Shore. The process of selective extraction of these metals will now be subjected to an economic evaluation. Since any successful overall research program at Mingan requires the purifying of by-products and the use of wastes as sources for iron and perhaps for titanium, the whole is tied to the economic feasibility of the process which has been initiated at CANMET.

Foreign Project

As the result of an agreement concluded in October 1975 with the Industrial and Mining Development Bank of Iran, SOQUEM has initiated a cooperative plan with the Iranian Mining Fund to promote the mining industry in this country. Collaboration at this stage consists in providing the necessary services to organize the Fund and set it in motion.

Once this stage is completed, the two companies will study the possibility of jointly undertaking mining investment projects in Iran, Canada and elsewhere in the world.

Research

During the past fiscal year, the SOQUEM research group put final touches on a "new generation" induced polarization receiver, the SWP-1.

This new receiver is controlled by a micro-computer, and its programming can be adjusted, at minimal cost, to the specific requirements of the clients. It measures and registers, with a single turn of a switch, the primary voltage and chargeability of the terrain; all the adjustments peculiar to one station are made by the micro-computer (cyclical correction of spontaneous polarization, correction of linear drift of the signal, scale adjustment, synchronization, etc.).

The first generation of the SWP-1 has a number of interesting features: capacity to measure a very weak signal (10uV) even with considerable background noise; extremely simple and rapid operation; a memory bank of 20 Kbits (RAM) and 24 Kbits (ROM); continual display of exact measurements.

SOQUEM is negotiating the manufacturing and marketing of the instrument with a Canadian firm whose accomplishments in these fields are well established.

Expansion of commercial services in Montréal

In view of its constant growth in the Canadian and foreign mining industry, SOQUEM has felt it advisable to expand its commercial services in Montréal. Questions relating to the management of existing interests, conclusion of new agreements, marketing, etc., generally come within the scope of this division. The Louvem and Niobec subsidiaries, mentioned earlier, have their head offices here.

The staff consists of about ten persons, under the direction of Mr. Claude Genest, vice-president and member of the Board of SOQUEM.

Personnel

During the year, the Company employed 63 persons (including officers) on a permanent basis; this number is about the same as the 1974-1975 figure.

La Société Minière Louvem Inc. had 72 employees, and Niobec Inc., 149.

We express our keen appreciation to all these persons for the co-operation they have shown in carrying out their duties, and in discharging their responsibilities.

On behalf of the Board of Directors,

Côme Carbonneau
President

June 3, 1976

SOQUEM

and its subsidiary
la société minière louvem inc.

Consolidated financial statements
for the fiscal year ended
March 31, 1976

Auditor's report

In accordance with Section 17 of its charter, I have examined the consolidated balance sheet of Société québécoise d'exploration minière (SOQUEM) and its subsidiary as at March 31, 1976 and the consolidated statement of income and expense and deficit and the consolidated statement of changes in financial position for the year then ended. I have obtained all the information and explanations I have required. My examination of Soquem for which I am the auditor included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as I considered necessary in the circumstances. I have relied on the report of the auditors who have examined the financial statements of the subsidiary.

In my opinion, these consolidated financial statements present fairly the financial position of the Company and its subsidiary as at March 31, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles which, taking into account the retroactive changes made by the Company in its accounting policies as disclosed in note 8, have been applied on a basis consistent with that of the preceding year.

Gérard Larose, c.a.,
Auditor-General.

Québec, June 18, 1976

Consolidated balance sheet March 31, 1976

Assets

	1976	1975 (note 9)
Current		
Cash	$ 13 096	$ 3 427
Term deposit	3 057 705	1 930 076
Accounts receivable and advances (note 2)	3 007 970	2 910 651
Prepaid expenses	271 983	227 727
	6 350 754	**5 071 881**
Investments (notes 3 and 7)	**2 977 410**	**2 633 831**
Fixed assets — at cost (note 4)	**2 382 339**	**2 040 841**
Less accumulated depreciation	1 234 379	1 234 921
	1 147 960	**805 920**
Pre-production expenditures		
Unamortized cost (note 5)	**649 880**	**709 451**
	$11 126 004	**$9 221 083**

Signed on behalf of the Board

Lucien Fontaine, director
Claude Genest, director

Liabilities

	1976	1975 (note 9)
Current		
Accounts payable and accrued charges	$ 1 600 226	$ 1 221 865
Provision for mining duties	334 027	(14 973)
	$ 1 934 253	**$ 1 206 892**

Shareholder's equity

Capital stock (note 6)		
Authorized: 4 500 000 shares of $10 par value		
Subscribed: 4 078 500 shares	$40 785 000	$40 785 000
Less subscriptions receivable	16 150 000	19 300 000
Issued and paid	**24 635 000**	**21 485 000**
Deficit (note 8)	(15 443 249)	(13 470 809)
	9 191 751	**8 014 191**
	$11 126 004	**$ 9 221 083**

Consolidated statement of income and expense and deficit for the year ended March 31, 1976

	1976	1975
		(note 9)
Income		
Mining operations		
Revenue	$11 368 336	$ 5 404 695
Cost of realization	4 772 814	1 647 458
	6 595 522	**3 757 237**
Operating expenses	4 723 872	3 102 266
Earnings from operations	**1 871 650**	**654 971**
Earned interest	258 824	380 630
Sale of mining interests (note 3)		922 957
	2 130 474	**1 958 558**
Expense		
Acquisition of mining rights and interests	136 461	480 622
Mineral deposit exploration	1 212 345	1 486 526
Development of discoveries	2 026 378	1 159 007
Administration	727 730	503 376
	4 102 914	**3 629 531**
Excess of expense over income for the year	1 972 440	1 670 973
Deficit, beginning of the year — restated (note 8)	13 470 809	11 799 836
Deficit, end of the year	**$15 443 249**	**$13 470 809**

Consolidated statement of changes in financial position for the year ended March 31, 1976

	1976	1975
		(note 9)
Working capital, beginning of the year	**$3 864 989**	**$4 810 341**
Source of funds		
Subscriptions to capital stock	**3 150 000**	**3 685 000**
Application of funds		
Excess of expense over income for the year	1 972 440	1 670 973
Non-cash items:		
Depreciation	(177 854)	(356 601)
Interest on notes receivable	8 415	8 415
Sale of mining interests		922 957
Funds applied to operations	1 803 001	2 245 744
Acquisition of fixed assets	460 323	498 123
Investments:		
Joint corporate venture	295 380	1 525 000
Others	39 784	
Pre-production expenditures		361 485
	2 598 488	**4 630 352**
Increase (decrease) in working capital	551 512	(945 352)
Working capital, end of the year	**$4 416 501**	**$3 864 989**

Notes to the consolidated financial statements for the year ended March 31, 1976

1. Accounting policies

Consolidation
The consolidated financial statements include the accounts of Soquem and its wholly-owned subsidiary, La Société Minière Louvem Inc., whose activity is mainly mining.

Fixed assets
Depreciation on Soquem's fixed assets is established on the basis of the anticipated useful life using the straight-line method. Louvem's depreciation is established on the basis of units of production during the year and proven and probable ore reserves as at the end of the year.

Pre-production expenditures
Amortization of the pre-production expenditures of the subsidiary Louvem Inc. is established in the same manner as that of its fixed assets.

Exploration and administrative expenses
Soquem and its subsidiary Louvem Inc. charge to operations all their exploration and administrative expenses; upon decision of bringing an orebody into production, the costs of related works, past and present, are then capitalized with a corresponding credit to operations.

2. Accounts receivable and advances

This includes:	1976	1975
Accounts receivable	$ 252 428	$ 276 994
Smelter settlements receivable at estimated net realizable value	2 755 542	1 702 657
Advances to an affiliated company		931 000
	$3 007 970	**$2 910 651**

3. Investments

This includes:	1976	1975
Joint corporate venture Niobec Inc.		
Shares	$ 25 000	$ 25 000
8% debentures (nominal value $5 000 000)	2 422 957	2 422 957
12% debentures	295 380	
	2 743 337	**2 447 957**

Soquem holds 25 000 shares or 50% of the shares of this company and accounts for its investment on an equity basis.

The 8% debentures result from:
a) The sale of mining interests costing $922 957 to Niobec Inc., for $3 500 000, which sale was recorded in the books without profit.

b) A $1 500 000 cash advance

The 12% debentures result from complementary advances, in accordance with the financing agreement. Payment of interest on debentures or other advances and the reimbursement of debentures are subordinated to the repayment of the other outside loans having financed the bringing into production of Niobec's orebody.

Soquem does not accrue interest earned on these debentures or advances.
(1976 $478 099 — 1975 $347 531)

	1976	1975
Other investments	234 073	185 874
	$2 977 410	**$2 633 831**

4. Fixed assets

This includes:	1976	1975
Lands and buildings	$ 641 053	$ 478 189
Machinery, vehicles, and equipment	1 417 300	1 308 275
Furniture and fixtures	192 155	139 899
Leasehold improvements	131 831	144 478
	2 382 339	**2 040 841**
Less accumulated depreciation	1 234 379	1 234 921
	$1 147 960	**$ 805 920**

5. Pre-production expenditures

This includes:	1976	1975
Exploration expenditures	$ 770 031	$ 770 031
Open-pit development expenditures	562 448	562 448
Underground development expenditures	1 632 727	1 632 727
	2 965 206	**2 965 206**
Less accumulated amortization	2 315 326	2 255 755
	$ 649 880	**$ 709 451**

6. Capital Stock

The authorized capital stock of the Company is $45 000 000. During the year, the Company received $3 150 000 in payment of 315 000 shares, increasing the paid capital stock from $21 485 000 as at March 31, 1975 to $24 635 000 as at March 31, 1976. Under these terms, the Minister of Finance shall pay the Company the following amounts:

Business year	Amount
1976-77 and each of the following three years	$3 400 000
1980-81	2 550 000

As at December 31, 1980, when the Minister shall have made all these payments, the fully paid-up capital stock will be $40 785 000.

The Company Charter also provides that the Minister of Finance is authorized to pay to the Company, upon its request, duly approved by the Lieutenant Governor in Council, the unsubscribed capital stock of $4 215 000 (421 500 shares), amount to be used by the Company towards the costs of development of discoveries or of participation in bringing orebodies into production.

7. Commitments

Soquem holds 50% of the shares of Niobec Inc., a company which started mining of a niobium (columbium) orebody at the end of the period. The bringing into production of the orebody required financing totalling approximately $18 600 000, of which $15 000 000 was provided by third parties under completion guarantee by the Company and another mining group up to commercial production. Such guaranteed loans have been reduced by $1 355 381 received after March 31, 1976 out of a $1 700 000 grant from the Department of Regional Economic Expansion.

8. Changes in accounting policies

a) The subscribed capital stock receivable is now deducted from the subscribed capital stock.

b) In the past, Soquem's exploration and administrative expenses as well as its subsidiary's outside exploration expenses were deferred. Also, the consolidated annual earnings were applied against the deferred expenses. During the period, Soquem has decided to charge to operations its exploration and administrative expenses and to transfer the results of its operations to deficit, whereas Louvem writes off its outside exploration expenses to operations as incurred. This last change was retroactively applied in Louvem's books, thereby increasing the consolidated deficit by $36 798 as at March 31, 1974 and decreasing the subsidiary's net profit by $131 258 for the year ended March 31, 1975.

These changes, applied retroactively, have created a consolidated deficit of $11 799 836 as at March 31, 1974 and of $13 470 809 as at March 31, 1975, detailed as follows:

	1975	1974
i) Parent company's deferred charges		
Cost of mining rights and interests	$ 1 087 985	$ 607 363
Exploration expenses	13 426 737	10 933 512
Administrative expenses	3 241 203	2 737 827
	17 755 925	**14 278 702**
Deduct:		
Sale of mining interests	1 541 192	618 235
Income on investments and term deposits	580 635	318 865
Share of subsidiary's net earnings since inception	3 447 103	2 694 322
Excess of cost of subsidiary's shares over underlying book value at dates of acquisition	(1 115 758)	(1 115 758)
	4 453 172	**2 515 664**
	13 302 753	**11 763 038**
ii) Louvem's outside exploration expenses		
Adjustment in the share of subsidiary's net earnings since inception	168 056	36 798
Restated deficit as at March 31	**$13 470 809**	**$11 799 836**

9. Regrouping

Due primarily to changes in accounting policies during the period, 1975 figures have been regrouped to comply with those of 1976.

10. Anti-inflation regulations

According to the anti-inflation laws and regulations of Québec, Soquem and its subsidiary are subject to the Inflation Control Commission as to prices, profit margins, and compensation control.

Louvem

la société minière louvem inc.

summary

Design: Michel Chouinard / Denis Collette + Associés
Print: Imprimerie Laflamme Ltée.